

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

APPEARANCES:

For the Public Advocate:
Roger P. Cox
HARDING SHULTZ & DOWNS
800 Lincoln Square
121 South 13th Street
Lincoln, NE 68501

For the Commission:
Nichole A. Underhill
300 The Atrium
1200 N Street
Lincoln, NE 68509

Bud Becker
Kinder Morgan, Inc.
370 Van Gordon Street
Lakewood, CO 80228

BY THE COMMISSION:

On September 29, 2006, an Application was filed with the Nebraska Public Service Commission (the "Commission") by Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco") (collectively "Kinder Morgan"), Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") (together with Kinder Morgan, the "KM Companies"), Source Gas Holdings LLC ("Source Gas Holdings"), and Source Gas LLC ("Source Gas") (collectively the "Source Gas Companies" and together with the KM Companies, the "Applicants"), seeking approval of (1) the proposed transfer of Kinder Morgan's Nebraska Certificate of Public Convenience and Nebraska retail utility assets to Source Gas Distribution, and (2) the proposed change of control of Source Gas Distribution from Kinder Morgan to the Source Gas Companies (collectively "the Transaction").

Notice of the Application was published in *The Daily Record*, Omaha, Nebraska, on October 4, 2006. A Petition for formal intervention was timely filed by the Public Advocate. A Petition for informal intervention was timely filed by Cornerstone Energy, Inc. Both petitions were granted by the Commission in an order issued in the above-captioned docket on November 21, 2006.

On February 12, 2006, the Applicants and Public Advocate filed with the Commission a Joint Stipulation containing Conditions of Approval ("Joint Stipulation") and resolving all issues in this proceeding between the parties. A hearing was held on the above-captioned Application on February 14, 2007, in the Commission Hearing Room, Lincoln, Nebraska. Appearances at the hearing are indicated above.

THE PARTIES:

Kinder Morgan provides retail natural gas distribution service to approximately 94,000 customers in about 180 Nebraska municipalities, located primarily in the western two-thirds of the state. Kinder Morgan's retail distribution operations in Nebraska employ approximately 230 persons.

Source Gas Holdings is presently owned by a subsidiary of General Electric Company ("GE"). GE operates many businesses including power, aviation, entertainment, medical services and also consumer and commercial financing. GE Energy Financial Services ("GEEFS") is a wholly-owned subsidiary of GE that has been in existence in one form or another for nearly 30 years and

is the entity through which GE manages its financial investments in the energy industry. Currently, GEEFS manages an asset base in excess of \$13 billion in a wide variety of energy businesses and assets, including electric power plants, electric transmission systems, natural gas pipelines, natural gas gathering and processing systems, oil and gas reserves, and water and wastewater systems.

Source Gas Holdings owns 100 percent of the equity interest in Source Gas, which in turn owns 100 percent of the equity interest in Source Gas Distribution. Concurrent with the Transaction described herein, up to 50 percent of the interest in Source Gas Holdings will be sold to Alinda Investments LLC ("Alinda"), a Delaware limited liability company. Alinda is backed by a U.S.-based institutional fund that makes long-term investments in essential infrastructure assets that support communities, business and government.

THE TRANSACTION:

Kinder Morgan has entered into a Purchase and Sale Agreement, pursuant to which Kinder Morgan will sell, among other things, its retail utility business in Nebraska, Wyoming and Colorado to Source Gas LLC.

The sale and transfer of the Kinder Morgan's retail utility business will be effectuated through a series of transactions culminating in the ultimate ownership of the business by Source Gas, LLC. Currently, Kinder Morgan's retail local distribution facilities and operations have been operated as part of a business unit of Kinder Morgan called KM Retail, and not as a separate stand-alone entity. In order that such facilities and operations may be sold, Kinder Morgan will first transfer these retail facilities and operations into a separate legal entity known as Source Gas Distribution, LLC. Kinder Morgan will then sell 100 percent of its ownership interest in this new Kinder Morgan entity to the Source Gas, LLC.

E V I D E N C E

In support of their Application, the Applicants offered the pre-filed testimony of Daniel E. Watson, President of Kinder Morgan Retail, and James F. Burgoyne, Managing Director of GEEFS. Mr. Watson and Ben Breland, Vice-President of Regulatory for Kinder Morgan, along with John Shepherd, Managing Director of GEEFS, also testified at the hearing on behalf of Applicants.

On behalf of the Public and the ratepayers of Kinder Morgan, the Public Advocate, Roger Cox, offered the pre-filed testimony of William L. Glahn, a consultant with Dahlen, Berg Consulting, Inc. Further, Mr. Cox testified at the hearing concerning the Application in the above-captioned matter.

Mr. Shepherd offered testimony on behalf of GEEFS and the Source Gas Companies and explained that GE follows a buy-and-hold philosophy and focuses its investments in companies that demonstrate long-term stability and potential for growth. He explained the ownership structure that would result from the Transaction, with Source Gas owning 100 percent of the ownership interest in the retail utility, Source Gas Distribution. Source Gas will be wholly owned by Source Gas Holdings, which in turn will be owned by a subsidiary of GE and its affiliate GEEFS, and Alinda, an investment company with a similar long-term investment philosophy. Mr. Shepherd explained that GE was buying not only utility assets, but also an experienced management team and operational personnel. He noted that GE expects the utility operations to continue to operate seamlessly after the Transaction, and believes that Source Gas Distribution presents opportunities for growth in the retail natural gas business, which should create even greater economies of scale for the current utility.

Mr. Watson testified regarding the effect of the Transaction on the utility's ongoing operations in Nebraska. Mr. Watson will continue as the President of the utility, Source Gas Distribution, after the closing of the Transaction. Mr. Watson further testified that the new utility will adopt Kinder Morgan's current tariffs, and that no changes to rates and terms and conditions of service will occur as a result of the Transaction. Mr. Watson testified that most or all of the utility's current management team will remain with Source Gas Distribution after the Transaction, and any personnel changes at the sub-management level are expected to be minimal, and in any event would not have a material impact on service to customers, or on the cost of service.

Mr. Watson stated that very little will change in the utility's day-to-day operation as a result of the Transaction. Mr. Watson further testified that no acquisition, transaction, or premium costs as a result of the Transaction will be recovered through rates or passed on to the ratepayers. Mr. Watson does not expect the Transaction to affect the utility's

access to capital or cost of capital and the utility's capital structure and cost of capital for ratemaking purposes will remain materially unchanged. Mr. Watson testified that in his opinion, the Transaction is in the public interest and will not adversely affect the utility's ability to serve its ratepayers.

Mr. Breland, the manager of regulatory affairs for Kinder Morgan and the prospective Chief Financial Officer of Source Gas Distribution, testified regarding certain financial implications of the Transaction. Mr. Breland reiterated that no acquisition premium or other adjustments will be recovered through rates or passed on to ratepayers as a result of the Transaction. Further, Mr. Breland stated that no assets of the Nebraska gas operation will be pledged as security or used as collateral for any financing associated with the operations of the jurisdictional utility. Mr. Breland continued that the costs associated with the operation of the jurisdictional utility assets in Nebraska will not be materially affected as a result of the Transaction. Mr. Breland also addressed some of the questions posed to the Applicants by the staff consultant.

Mr. Cox commented on the Transaction and the testimony of Mr. Glahn. Mr. Glahn's initial testimony set forth a list of concerns he identified for the Public Advocate. Mr. Glahn's supplemental testimony stated that those concerns had been satisfactorily addressed. Mr. Cox stated that both the Public Advocate and the consultant, Mr. Glahn, had no objection to the approval of the Application by the Commission and the finding by the Commission that the Transaction would be consistent with the public interest and would not adversely affect the ability of the utility to serve its Nebraska ratepayers.

Mr. Jay Boyle, representing Local 7476 of the Communications Workers of America, also appeared and commented during the public comment portion of the hearing. Mr. Boyle stated that Local 7476 represents certain bargaining unit employees of Kinder Morgan, some of whom will become employees of Source Gas Distribution as a result of the Transaction. Mr. Boyle commented in favor of the Transaction, stating that the union's support came as a result of meetings with the management of Kinder Morgan and Source Gas Companies over the last couple of months. Mr. Boyle stated further that the union was impressed with the Applicant's various filings, including the representation that Source Gas Distribution intended to make minimal personnel changes at the sub-management level and would assume the

current collective bargaining agreement between Kinder Morgan and the union.

The Applicants and the intervenors, entered into a joint stipulated agreement prior to the February 14, 2007 hearing. In the Joint Stipulation, the Applicants recommend approval of the application and the Public Advocate and Cornerstone offer no objection to the Commission approving the Application. Further, all remaining issues between the parties in the above-captioned proceeding were resolved in the Joint Stipulation. The Joint Stipulation, signed by all parties, was admitted into evidence at the February 14, 2007 hearing. The Joint Stipulation is attached to this Order as **Exhibit A** and is incorporated into the terms of this order.

O P I N I O N A N D F I N D I N G S

The State Natural Gas Regulation Act (the "Act") Neb. Rev. Stat. §§ 66-1801, et seq., requires Commission approval for the reorganization or change of control of any jurisdictional utility serving customers in Nebraska. Specifically, the Act provides:

The commission shall not approve any proposed reorganization or change of control if the commission finds, after public notice and public hearing, that the reorganization or change of control will adversely affect the utility's ability to serve its ratepayers. Neb. Rev. Stat. § 66-1828(1) (2003 Supp.).

Likewise, the Act requires Commission approval for the transfer of any franchise or certificate of convenience granted to a jurisdictional utility serving customers in Nebraska. Specifically, the Act provides:

No franchise or certificate of convenience granted to a jurisdictional utility shall be assigned, transferred, or leased unless the assignment, transfer, or lease has been approved by the commission as being consistent with the public interest. Neb. Rev. Stat. § 66-1821 (2003 Supp.).

The Applicants assert that the proposed transfer of control will benefit the customers of Kinder Morgan in a variety of ways. The Source Gas Companies view the local distribution utility business as a tremendous investment opportunity. The

Source Gas Companies state in the joint Application that they intend to use the acquisition of Kinder Morgan's natural gas distribution segment as a platform upon which to grow. The Source Gas Companies state that they are interested in long-term investments and intend Source Gas Distribution to be a strong player in the Nebraska gas distribution business for years to come.

The Source Gas Companies bring a solid financial foundation and access to substantial capital resources for the benefit of the local distribution system in Nebraska and state they intend to offer opportunity to expand and grow. GEEFS is investing its own capital in the Kinder Morgan assets and will be looking for ways to grow the Source Gas Companies over time and therefore, state that there is no pressure to quickly return cash to third-party investors. GEEFS core investment strategy is a buy-and-hold strategy. Because of the indirect involvement of GE and its subsidiary GEEFS, the Applicants expect the Transaction to have a positive impact on the bond ratings and financing costs going forward. The long-term investment philosophy, coupled with the significant financial resources will create a favorable environment for growth and expansion across Kinder Morgan's retail service areas.

The Source Gas Companies intend to create a corporate structure that will establish a level of separation around its companies, a measure of protection called "ring fencing." These protections will help ensure that the financial strength and integrity of the utility operations will not be adversely impacted by the actions of its parent. Source Gas will obtain a separate investment grade credit rating from its affiliates, which will be consistent with other entities within its peer group.

Additionally, Source Gas Distribution will adopt all of the Nebraska tariffs setting forth rates, charges, rules and regulations currently on file with the Commission for Kinder Morgan. The Applicants stated that there are no plans to change in any material way the management team currently operating the retail business. Further, the Applicants will not seek cost recovery from Nebraska ratepayers of any transaction or transition costs related to the transactions.

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Finally, the Applicants state that they do not anticipate any material change in the operations due to the proposed Transaction. The quality of service, the day-to-day operation of the utility, current gas supply contracting and management, systems operation, maintenance activities, safety, customer service and billing operations will all remain unchanged.

The Applicants also offered testimony regarding the inter-relation of this Application in the above-captioned Docket and the Application of Kinder Morgan, Inc. in Docket No. NG-0040 currently pending before the Commission. The approvals sought in Docket No. NG-0040 concern Kinder Morgan's proposal to become a private enterprise wholly owned and managed by a group of investors led by Richard Kinder, Kinder Morgan's Chairman and CEO. Any order entered in relation to Docket No. NG-0040 and the Stipulation therein would become moot if the Transaction which is the subject of the Application in the above-captioned Docket is consummated.

Based on the evidence, we find that the transaction will not adversely affect the ability of Kinder Morgan to serve its ratepayers and is consistent with the public interest. The Application should be granted.

O R D E R

IT IS THEREFORE ORDERED by the Nebraska Public Service Commission that the Application in Docket No. NG-0039 be and is hereby, approved.

IT IS FURTHER ORDERED that the Joint Stipulation attached to this order as **Exhibit A**, be and is hereby approved, and Applicants shall comply with all applicable terms and conditions in the Stipulation set forth in **Exhibit A**.

IT IS FURTHER ORDERED that should the Transaction between Kinder Morgan and the Source Gas Companies which is the subject of the above-captioned proceeding not be consummated, then this order and the Joint Stipulation attached hereto as **Exhibit A** shall be of no force and effect and that the order entered by this Commission in Docket No. NG-0040 shall in such instance govern the matters addressed therein.

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MADE AND ENTERED at Lincoln, Nebraska, this 27th day of February, 2007.

NEBRASKA PUBLIC SERVICE COMMISSION

COMMISSIONERS CONCURRING:

Gerald L. Vap

Rune C. Boyle

Tim Johnson

//s// Rod Johnson

//s// Frank E. Landis

Chairman:

Rod Johnson

ATTEST:

Ad S. Pollock

Executive Director

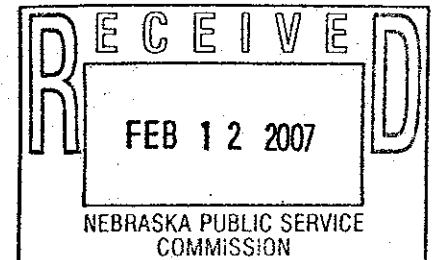
SECRETARY'S RECORD, NEBRASKA PUBLIC SERVICE COMMISSION

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE JOINT)
 APPLICATION OF KINDER MORGAN,)
 INC., SOURCE GAS DISTRIBUTION LLC,)
 SOURCE GAS HOLDINGS LLC, SOURCE)
 GAS LLC AND SOURCE GAS MERGER CO)
 FOR APPROVAL OF (1) THE PROPOSED)
 TRANSFER OF ALL KINDER MORGAN,)
 INC.'S CERTIFICATES OF PUBLIC)
 CONVENIENCE AND NECESSITY AND)
 UTILITY ASSETS AND PROPERTIES TO)
 SOURCE GAS DISTRIBUTION LLC; AND)
 (2) THE PROPOSED CHANGE OF)
 CONTROL OF SOURCE GAS)
 DISTRIBUTION LLC FROM KINDER)
 MORGAN, INC. TO SOURCE GAS LLC)

Application No. NG-0039

Joint Stipulation

**I. JOINT STIPULATION**

Kinder Morgan, Inc. ("Kinder Morgan"), KM Retail Utilities Holdco LLC ("KM Retail Holdco")(collectively referred to throughout as "Kinder Morgan"), Source Gas Distribution LLC f/k/a KM Retail LLC ("Source Gas Distribution") (together with Kinder Morgan, the "KM Companies"), Source Gas Holdings LLC ("Source Gas Holdings"), and Source Gas LLC ("Source Gas") (collectively the "Source Gas Companies" and together with the KM Companies, the "Applicants"), informal intervenor Cornerstone Energy, Inc. ("Cornerstone"), and the Public Advocate for the State of Nebraska hereby submit this joint stipulation to the Nebraska Public Service Commission ("Commission") pursuant to NEB.REV.STAT. § 66-1828 and other applicable provisions of the State Natural Gas Regulation Act (the "Act").

As more fully described below, NEB.REV.STAT. § 66-1821 provides that no Certificate of Public Convenience or franchise ("CPC") shall be transferred or assigned unless the assignment has been approved by the Commission as being consistent with the public interest. In addition,

NEB.REV.STAT. § 66-1828, and other applicable provisions of the Act, authorize the Commission to review and consider approval of any proposed reorganization or change of control of a jurisdictional utility, as therein defined, and that provision specifically provides that the Commission shall not approve any proposed reorganization or change of control if the Commission shall find that the reorganization or change of control will adversely affect the utility's ability to serve its ratepayers.

Applicants recommend approval of (1) the proposed transfer of Kinder Morgan's Nebraska CPCs and Nebraska retail utility assets to Source Gas Distribution, and (2) the proposed change of control of Source Gas Distribution from Kinder Morgan to Source Gas (collectively "the Transaction").

After a thorough review of the Application, testimony, informal discovery, and other relevant documents submitted by Applicants, and contingent upon Commission consideration of the issues identified by the Public Advocate's testimony in this proceeding, the Public Advocate does not object to the Commission issuing an order finding that the proposed transfer of Kinder Morgan's Nebraska CPCs and Nebraska retail utility assets to Source Gas Distribution is consistent with the public interest, and further finding that the Transaction will not adversely affect Source Gas Distribution's ability to serve its ratepayers. Cornerstone does not object to the Commission issuing an order approving the Application.

Accordingly, Applicants respectfully request the Commission to issue an order approving the Transaction. The Public Advocate and Cornerstone do not object to this request. Hereafter, the Applicants, the Public Advocate, and Cornerstone collectively will be referred to as "the Parties".

II. JURISDICTION

The Commission generally has jurisdiction over this Application pursuant to NEB.REV.STAT. § 66-1804 of Act. Specifically, jurisdiction exists pursuant to Section 66-1821 governing the transfer or assignment of a CPC, and Section 66-1828, which requires prior approval by the Commission of any proposed reorganization or change of control of a jurisdiction utility, as defined under the Act.

III. PROCEDURAL HISTORY

On September 29, 2006 Applicants filed an Application in the above-captioned proceeding.

On September 29, 2006, Applicants filed testimony in support of the Application. Specifically, Applicants submitted "Direct Testimony of Daniel E. Watson" on behalf of KM Companies and "Direct Testimony of James F. Burgoyne" on behalf of Source Gas Companies.

On September 29, 2006, Discovery on the Application and Testimony filed in this case began.

On October 4, 2006, the Commission issued its "Notice of Application" order, which was published in *The Daily Record*.

On October 26, 2006, Applicants filed a Motion for Protective Order along with a proposed Protective Order for Commission Approval. The Protective Order was approved by the Commission in an order dated November 8, 2006.

November 3, 2006, was established by the Commission as the deadline for filing petitions for intervention. Cornerstone filed a "Petition for Informal Intervention" on or about October 13,

2006. The Public Advocate of Nebraska filed a "Petition For Formal Intervention" on November 3, 2006. Both Interventions were granted in the Commission's November 21, 2006, Planning Conference Order.

On November 13, 2006, the Commission held its Planning Conference at the Commission. Thereafter, the Parties and Commission Staff held a discussion regarding discovery and additional areas of review regarding the investigation and review of the Application.

On November 21, 2006, the Commission issued its Planning Conference Order establishing a procedural schedule for this proceeding. The Commission further granted the formal and informal interventions, adopted discovery procedures, and set a Technical and Prehearing Conference to be held on January 17, 2007, in the Commission's Library. The Commission ordered a Hearing to be held on February 14, 2007, at 10:00 a.m. in the Commission's Hearing Room.

On November 20, 2006, Applicants submitted responses to informal discovery requests proposed by the Public Advocate during various informal meetings or conference calls regarding the Application. Included in the Applicants' responses to informal discovery requests proposed by the Public Advocate were copies of the Applicants' responses to the initial discovery requests served on the Applicants in companion proceedings pending in the State of Colorado and State of Wyoming.

Between September 29, 2006, and the present, Applicants and the Public Advocate held various discussions and telephone conference calls regarding the Application and areas of discovery pursuant to the Public Advocate's review of the Application.

On January 16, 2006, the Public Advocate filed a "Notice of Filing of Written Testimony of William L. Glahn."

Simultaneous with the filing of this Joint Stipulation the Public Advocate filed a "Notice of Filing of Supplemental Written Testimony of William L. Glahn."

At the request of the Parties, and due to the agreement set forth in this Stipulation, the Commission has cancelled the technical conference and prehearing conference scheduled for January 17, 2007, in this proceeding. A hearing to consider approval of the Stipulation ("Hearing") will be held February 14, 2007 or as soon hereafter as the matter may be heard by the Commission.

IV. STIPULATIONS

The Parties jointly stipulate to the following:

Application

1. The Application and associated exhibits filed by Applicants will be received into evidence.

Testimony

1. The Parties agree that the filed testimony of Daniel E. Watson on behalf of KM Companies, in support of the Application will be received into evidence.

2. The Parties waive their right to cross-examine Daniel E. Watson, and agree that he will not be required to appear at the Hearing in this proceeding.

3. The Parties agree that the filed testimony of James F. Burgoyne on behalf of Source Gas Companies in support of the Application will be received into evidence.

4. The Parties waive their right to cross-examine James F. Burgoyne, and agree that he will not be required to appear at the Hearing.

5. The Parties agree that the filed testimony of William L. Glahn, on behalf of the Public Advocate will be received into evidence.

6. The Parties waive their right to cross-examine William L. Glahn, Witness for the Public Advocate, and agree that he will not be required to appear at the Hearing in this proceeding.

7. The Parties stipulate that, subject to the continuing protection of the Commission's Protective Order in this proceeding, each of the discovery responses of Applicants to the Public Advocate, including copies of the Applicants' responses to the initial discovery requests served on the Applicants in the companion proceedings in Colorado and Wyoming, will be received into evidence. Those responses and accompanying attachments will be combined into one exhibit.

Hearing Procedures

1. The Parties agree that the Hearing may be conducted in a "legislative" style format.

2. The Parties agree that Mr. Daniel E. Watson and/or other representatives of Kinder Morgan may make a brief presentation on behalf of KM Companies and will answer questions of KM Companies from the Parties, Commissioners, or Commission staff.

3. The Parties agree that Mr. John C. Shepherd and/or other representatives of GE Energy Financial Services may make a brief presentation on behalf of the Source Gas Companies and will answer questions of Source Gas Companies from the Parties, Commissioners, or Commission staff.

4. The Parties agree that Mr. Roger Cox and/or other representative of the Public Advocate may make a brief presentation on behalf of the Public Advocate. Mr. Cox and/or other representative of the Public Advocate will answer questions of the Public Advocate from the Parties, Commissioners, or Commission staff.

5. A court reporter will record any testimony or questions provided at the Hearing.

Transaction

1. The Applicants state that the proposed transfer of Kinder Morgan's Nebraska CPC and Nebraska retail utility assets to Source Gas Distribution is consistent with the public interest. The Public Advocate and Cornerstone do not object to the Commission issuing an order finding that the proposed transfer of Kinder Morgan's Nebraska CPCs and Nebraska retail utility assets to Source Gas Distribution is consistent with the public interest.

2 The Applicants state that the Transaction does not adversely affect Source Gas Distribution's ability to serve its Nebraska ratepayers. The Public Advocate and Cornerstone do not object to the Commission issuing an order finding that the Transaction does not adversely affect Source Gas Distribution's ability to serve its Nebraska ratepayers.

Conditions of Approval

1. The Applicants agree that any acquisition premium or adjustment paid by the Source Gas Companies for Kinder Morgan's Nebraska retail utility assets that are subject of this proceeding, as well as any transaction costs resulting from the Transaction, shall be excluded from the utility accounts for rate making and Commission financial reporting purposes and shall not be recovered from ratepayers now or at any time in the future. The annual report specified in Paragraph 13 below will contain a summary of each category of costs, if any, that is reasonably identified as either a transaction or transition cost. The categories of costs to be included in the report shall include, but shall not be limited to: billing and collection; customer service; legal; accounting and finance; regulatory; general operations; and field operations.

2. The Applicants agree there shall be no pledge of Nebraska jurisdictional utility assets in connection with the Transaction. Source Gas Distribution shall not guarantee the

financial obligations (including debt obligations) of any of its affiliate or parent entities and shall not pledge its assets as security or collateral for any obligations not related to the provision of regulated utility services.

3. The Applicants have provided the Public Advocate and Commission with discovery responses that demonstrate Source Gas Distribution's estimates of employee costs and costs related to corporate cost allocation for retail utility operations before and after the close of the Transaction and a similarity of such costs before and after the Transaction. The Applicants agree that the costs associated with the operation of the jurisdictional utility assets in Nebraska will not be materially affected as a result of the Transaction, and agree that nothing in this Stipulation shall alter or modify in any way Kinder Morgan's and Source Gas Distribution's commitment in Docket No. NG-0036 to not file a general base rate case with the Commission prior to June 1, 2009. The Parties acknowledge that Source Gas Distribution has agreed to file a Cost Assignment and Allocation Manual ("CAAM") with the Colorado Public Utilities Commission and Public Service Commission of Wyoming. On or before December 31, 2007, Source Gas Distribution will file a copy of the CAAM for informational purposes with the Commission, with a copy to the Public Advocate.

4. The Applicants stipulate that Source Gas Distribution will notify the Commission in the event of any transaction that results in a change in ownership of ten percent (10%) or more of the voting capital stock or units of any of the Source Gas Companies.

5. The Applicants acknowledge that Neb.Rev.Stat. §66-1827 provides, in relevant part, that a jurisdictional utility shall not subject property used in its intrastate natural gas utility business in Nebraska to an encumbrance for the purpose of securing the payment of any new indebtedness or replacement indebtedness in an amount exceeding \$100 million attributed to

Nebraska without prior Commission approval, and Applicants agree to comply with this statutory requirement. The Applicants, on behalf of themselves and their successors and assigns, further agree to submit timely written disclosure to the Commission and the Public Advocate in the event of (a) a change in ownership interest of ten percent (10%) of more of Source Gas Distribution or its successors and assignees; or (b) any transaction that results in the sale of any portion of Source Gas Distribution's Nebraska jurisdictional utility assets (whether then held by Source Gas Distribution or any successor or assign of Source Gas Distribution) for a price that is greater than ten percent (10%) of the overall net book value of all of Source Gas Distribution's Nebraska jurisdictional utility assets (whether then held by Source Gas Distribution or any successor or assign of Source Gas Distribution).

6. The Applicants agree that Source Gas Distribution will adhere to and apply the existing tariffs of Kinder Morgan. Source Gas Distribution will provide safe, adequate and reliable service in accordance with the terms, conditions and rates currently set forth in those tariffs, and in accordance with any revisions to the tariffs as the Commission may approve or require in the future. Source Gas Distribution agrees to provide access to books and records pursuant to the Act and Commission rules, including, where relevant and necessary, those of parent or affiliate companies, that are necessary to verify or examine transactions with any parent or affiliate companies that are not arm's length transactions and that directly affect Source Gas Distribution's regulated utility operations in Nebraska. In addition, Source Gas Distribution shall maintain the necessary books and records so as to provide an audit trail for all corporate or affiliate transactions directly affecting Source Gas Distribution's regulated utility operations in Nebraska. No later than October 1, 2008, and annually for three (3) years thereafter (ending October 1, 2010), Source Gas Distribution shall make an informational filing with the

Commission, with a copy to the Public Advocate, comprised of an affiliate transaction report regarding transactions with any parent or affiliate companies that are not arm's length transactions. The report will include the following:

- (1) An organizational chart or summary describing the parent company and relevant subsidiaries;
- (2) A narrative description of each affiliate with which Source Gas Distribution does business, and a description of what portion of the affiliate's business comes from Source Gas Distribution; and
- (3) A report of the transactions between each affiliate and Source Gas Distribution, including a description of any inter-company loans.

7. Source Gas Distribution agrees that in its next general rate case proceeding it shall propose a capital structure and cost of debt for rate making purposes that are representative of capital structures and costs of debt for comparable utility companies in the United States having an investment grade debt rating.

8. The Applicants do not expect any material changes in the management of Source Gas Distribution as a result of the Transaction. The jurisdictional utility business in Nebraska will continue to be operated and service will continue to be provided by Source Gas Distribution in essentially the same manner and with essentially the same personnel as Kinder Morgan has operated the business and provided service. Applicants acknowledge that personnel changes will occur over time as part of the normal course of business, including employee retirements. The annual report specified in Paragraph 13 below will contain a summary of employment levels (including changes in numbers of employees in particular job classifications) by department,

division office, and/or operational business unit for Source Gas Distribution's Nebraska jurisdictional utility business.

9. There will be no material change in gas supplies or upstream delivery arrangements as a result of the Transaction described in the Application. The existing gas supply and upstream delivery arrangements will continue to be safe, reliable and adequate after the Transaction.

10. There will be no material change in customer service or billing operations as a result of the Transaction. Source Gas Distribution may change customer service or billing vendors in the ordinary course of business, as long as its customer service and billing operations continue to reliably serve customers.

11. The Parties agree that the relevant statutes governing this Application are under the Act, and, in particular, NEB. REV. STAT. § 66-1821 and -1828. Pursuant to the Act, the Parties agree that the Commission has jurisdiction to approve the transfer or assignment of a CPC as well as the reorganization or change of control of a jurisdictional utility, and nothing herein shall limit the otherwise applicable regulatory authority of the Commission.

12. Subject to the reservations set forth in this Stipulation, the Applicants and Cornerstone agree that the Commission should issue an order approving the Transaction and the Public Advocate does not object to the entry of an order approving the Transaction.

13. Each year, beginning in 2008, within 60 days after the anniversary date of the close of the Transaction, Source Gas Distribution will submit to the Commission, with copy provided to the Public Advocate, an informational report which sets forth the annual compliance status of each of the commitments set forth in paragraphs 1, 2, 3, 4, 5, 6, 8, 9 and 10 of the Conditions of Approval, as contained herein. Such annual compliance reports shall specify, to

the extent that any commitments have not been met, corrective measures taken or proposed to be taken by Source Gas Distribution, and shall be subject to further Commission review with respect to such corrective measures. Beginning after such informational report is filed in 2012, Source Gas Distribution shall have the right to apply to the Commission, with copy provided to the Public Advocate, for an order extinguishing in whole or in part the requirements set forth in this paragraph.

V. PURPOSE

This Stipulation is intended by the Parties to be a stipulation of the issues and hearing procedures identified by Cornerstone, the Public Advocate and Commission Staff.

The Parties stipulate and agree that the proposals, positions and adjustments made or obtained in this Stipulation, whether express or implied, are made or obtained only in the spirit of compromise. The purpose of this Stipulation is to document the resolution of all issues in this proceeding, the lack of objection by the Public Advocate to the approval of the Transaction and the recommendation of Applicants and Cornerstone of Commission approval of the Application. This Stipulation is not intended to and does not bind either Cornerstone or the Public Advocate to any position that may be taken by either of them in another docket by any other filing made under the Act.

VI. JOINT MOTION

Subject to the conditions and reservations set forth herein, the Parties hereby jointly support and take action to encourage the Commission to promptly issue an Order ruling on this Stipulation and the Application, in its entirety, without further condition or modification.

VII. CONDITION PRECEDENT

This Stipulation shall not become effective unless and until the Commission enters an Order approving this Stipulation in its entirety without condition or modification.

VIII. PRIVILEGE AND LIMITATION

This Stipulation is made pursuant to Nebraska law, and except as otherwise noted herein shall become binding upon the Parties upon its execution, provided, however, that if this Stipulation does not become effective in accordance with Article VII above, it shall be null, void and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any ratemaking methodology, ring fencing conditions, corporate structure, or the resolution of any specific issue that may underlie or be implied by the provisions of this Stipulation or be prejudiced or bound thereby in any other current or future proceeding before the Public Service Commission.

IX. EFFECTIVENESS

This Stipulation shall become effective upon Commission approval without modification by a final Commission order. Such order becomes "final" either by issuance of a Commission order on rehearing or, if no rehearing request is filed, thirty (30) days after issuance of the Commission order approving the Stipulation pursuant to *Neb. Rev. Stat. § 75-136*. Notwithstanding any other provision herein, this Stipulation shall be null and void in the event the "Transaction" defined herein does not close and, in such event, the Stipulation in the Commission's Docket No. NG-0040 shall continue to govern as set forth therein.

X. RESERVATIONS

A. This Stipulation is submitted pursuant to Nebraska law, and all Parties agree that, unless this Stipulation becomes effective as provided herein, this Stipulation and any and all discussions related thereto, shall be privileged and shall not be admissible in evidence or in any way used, described or discussed in any proceeding.

B. It is specifically understood and agreed that this Stipulation represents a negotiated Stipulation of the issues in this proceeding settled in a manner which is in the public interest. The provisions of this Stipulation are for purposes of Stipulation only and are not intended to have any precedential effect.

C. All Parties further understand and agree that the provisions of this Stipulation relate only to the specific matters referred to in this Stipulation and no party or person waives any claim or right which it otherwise may have with respect to any matters not expressly provided for in this Stipulation.

D. All Parties further reserve the right to withdraw their support for this Stipulation in the event that the Commission modifies the Stipulation and to contest any such Commission order modifying the Stipulation.


XI. CONCLUSION

WHEREFORE, for the reasons more fully described above, the Applicants respectfully request and the Public Advocate and Cornerstone do not object to the Commission issuing an order granting approval of: (1) the proposed transfer of Kinder Morgan's Nebraska CPCs and Nebraska retail utility assets to Source Gas Distribution; and (2) the proposed change of control of Source Gas Distribution from Kinder Morgan to Source Gas, and for such other and further relief as may be deemed just and equitable in the premises.

DATED February 9th, 2007

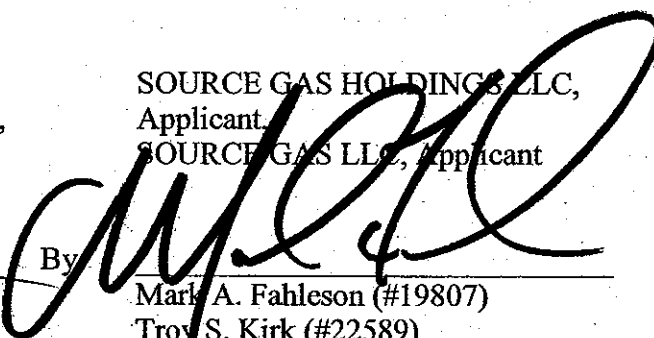
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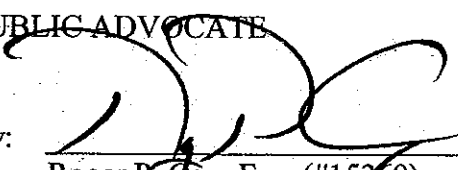
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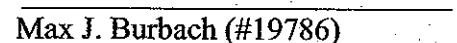
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DATED February 12, 2007

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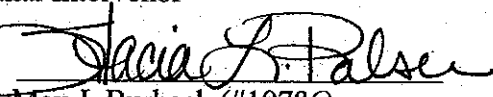
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